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UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
WESTERN DIVISION

SEVILLE CLASSICS, INC., a
California corporation,

Plaintiff,

vs.

NEATFREAK GROUP, INC., a
Canada corporation; NEATFREAK
GROUP CORP, a Delaware
corporation; TARGET
CORPORATION, a Minnesota
corporation; and DOES 1 – 10,
inclusive,
Defendants.

Case No. 2:15-cv-06237-SJO-AS

**DEFENDANTS NEATFREAK
GROUP CORP.'S AND
NEATFREAK GROUP INC.'S
JOINT MEMORANDUM OF
POINTS AND AUTHORITIES IN
OPPOSITION TO PLAINTIFF
SEVILLE CLASSICS, INC.'S
MOTION TO DISMISS**

Hearing: March 28, 2016 at 10:00 a.m.

Hon. S. James Otero

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1 Defendants Neatfreak Group Corp. and Neatfreak Group, Inc.
2 (collectively, “**Neatfreak**”), by and through their undersigned counsel, submit
3 their joint memorandum of points and authorities in opposition to plaintiff Seville
4 Classics, Inc.’s (“**Seville**”) motion to dismiss Neatfreak’s inequitable conduct
5 counterclaim and to strike the corresponding affirmative defense (“**Motion to**
6 **Dismiss**”, ECF No. 53).

7 **Introduction**

8 As pled in Neatfreak’s Joint First Amended Counterclaims
9 (“**Counterclaims**”, ECF No. 44), Seville’s patent attorney, who prepared and
10 prosecuted the application resulting in U.S. Patent No. D724,357 (the “**’357**
11 **Patent**”), knowingly inserted new subject matter within this application that was
12 not present within or otherwise supported by the parent application to which it
13 claimed priority. The same patent attorney then intentionally failed to file a
14 required statement to the U.S. Patent and Trademark Office (“**USPTO**”) which
15 would have notified the USPTO of this addition of new subject matter. This
16 omission ensured that the application for the ‘357 Patent would improperly be
17 afforded the earlier filing date of its parent application as it underwent
18 examination. As a result of this misrepresentation, the priority parent application
19 was not cited by the USPTO examiner as prior art to the application for the ‘357
20 Patent. But-for this material misrepresentation to the USPTO, the ‘357 Patent
21 would not have been granted, but rather would have been finally rejected in view
22 of the teachings of its parent application.
23

24 In their Counterclaims, Neatfreak includes detailed factual allegations—
25 which for the purposes of this motion are to be accepted as true—supporting each
26
27
28

1 required element of its Count II¹, seeking a declaratory judgment that U.S. Patent
 2 the ‘357 Patent is unenforceable due to acts and omissions constituting
 3 inequitable conduct before the USPTO.² These factual allegations clearly meet
 4 all of the Federal Circuit’s heightened pleading standards for inequitable conduct.
 5 In arguing to the contrary, Seville’s Motion to Dismiss: (1) fails to address
 6 numerous allegations of Neatfreak’s Counterclaims, including the key allegation
 7 that Seville failed to comply with USPTO regulations requiring applicants to
 8 notify the UPSTO via a written certification whenever a “transition application”
 9 claims subject matter not disclosed in a parent application; (2) cites inapplicable
 10 case law regarding the materiality of Seville’s omissions and misrepresentations;
 11 and (3) improperly conflates the Federal Circuit’s initial pleading standards for
 12 inequitable conduct with the standard for ultimate proof at trial. Accordingly,
 13 Seville’s Motion to Dismiss should be denied.
 14

15 **Background Facts and Law**
 16 **Relevant to Seville’s Motion and This Opposition**

17 **A. The America Invents Act and Transition Patent Applications.**

18 The Leahy-Smith America Invents Act (“AIA”) amended the patent laws
 19 pertaining to the conditions of patentability, converting the United States patent
 20 system from a “first to invent” system to a “first inventor to file” system. 35
 21 U.S.C. § 102. On March 16, 2013, before the filing date of the application for the
 22 ‘357 Patent, the first-inventor-to-file provisions of the AIA became effective.
 23 Manual of Patent Examination and Procedure (“M.P.E.P.”) § 201.07, Ninth
 24

25 ¹Notably, Seville has not moved to dismiss Count I of Neatfreak’s Counterclaim, seeking a
 26 declaratory judgment that another patent of Seville, U.S. Pat. No. D703,468, is likewise
 unenforceable due to acts and omissions constituting inequitable conduct before the USPTO.

27 ² As Neatfreak’s corresponding amended ninth affirmative defense incorporates by reference
 28 Paragraphs 14 and 32-59 of Neatfreak’s Counterclaims, the arguments herein establishing that
 Count II of the Counterclaims are adequately pled apply equally to this affirmative defense.

1 Edition, November 2015. Since that date, U.S. patent applications are prosecuted
2 and examined under one of two legal frameworks: the first-to-invent provisions
3 of the Patent Act (referred to as pre-AIA law) and the first-inventor-to-file
4 provisions of the Patent Act (referred to as AIA law).

5 There are three possible scenarios that may arise in terms of which
6 framework to apply to the examination of a particular patent application. In the
7 first scenario, applications filed before March 16, 2013 are subject to
8 examination under pre-AIA law. In the second scenario, applications filed after
9 March 16, 2013 that do not claim priority to or the benefit of applications filed
10 before March 16, 2013 are subject to examination under AIA law.

11 In the third scenario, designated by the USPTO as a “transition
12 application”, an application is filed after March 16, 2013 but claims priority to
13 and the benefit of an application filed before March 16, 2013. If a transition
14 application claims new subject matter that is not disclosed in a priority parent
15 application filed before March 16, 2013, then it is subject to examination under
16 AIA law, and the disclosure of the priority parent application is available as prior
17 art to the transition application under the AIA. If a transition application does not
18 claim new subject matter that was not disclosed in its priority parent application,
19 then it is subject to examination under pre-AIA law, and the disclosure of the
20 priority parent application is not available as prior art to the transition
21 application.
22

23 **B. The USPTO’s Regulations for Transition Applications under the AIA.**

24 The USPTO recognized that, in the examination of transition applications,
25 it simply is not feasible to require patent examiners to determine if the subject
26 matter of each claimed invention is fully supported by the priority patent
27 application (and hence subject to examination under pre-AIA law), or if the
28

1 claimed invention is directed to new matter, not disclosed in the parent
2 application (and hence subject to examination under the AIA). Thus, the USPTO
3 issued regulations placing the onus upon the patent applicant to furnish a written
4 statement to the USPTO indicating when a transition application claims new
5 matter, and is therefore subject to examination under pre-AIA or AIA law. The
6 regulations state, in pertinent part:

7 “If a nonprovisional application filed on or after March 16,
8 2013, claims the benefit of the filing date of a provisional
9 application filed prior to March 16, 2013, and also contains, or
10 contained at any time, a claim to a claimed invention that has an
11 effective filing date as defined in § 1.109 that is on or after
12 March 16, 2013, the applicant must provide a statement to that
effect ...”

13 37 C.F.R. §1.78(a)(6).

14 In initially promulgating this proposed regulation, the USPTO stated
15 following regarding the policy behind the statement to be made under 37 C.F.R.
16 §1.78(a)(6), and the USPTO’s reliance upon these statements:

17 This information is needed to assist the Office in determining
18 whether the application is subject to 35 U.S.C. 102 and 103 as
19 amended by the AIA or 35 U.S.C. 102 and 103 in effect on
20 March 15, 2013. As discussed previously, if the Office must
21 determine on its own the effective filing date of every claim
22 ever presented in an application filed on or after March 16,
23 2013, that claims priority to or the benefit of a provisional
24 application filed prior to March 16, 2013, examination costs
25 will significantly increase.

26 77 Fed. Reg. 43,745 (proposed July 26, 2012) (discussing proposed rule to
27 be codified at 37 C.F.R. §1.78). (Emphasis added).

28 In publishing the final version of its regulations implementing the patent
examination procedures under the AIA, the USPTO stated:

1 “... [T]he applicant will have prepared both the transition
 2 application and its priority or benefit application(s) and thus
 3 should be far more familiar with the contents thereof than an
 4 examiner who was not involved in the preparation of any of the
 5 applications. Patent applicants would need to pay higher filing
 6 fees to recover the significantly higher examination costs if
 7 Office personnel were required to independently determine the
 8 effective filing date of each claim ever presented in an
 9 application. As a result of the statement requirement, the Office
 10 and the public will have greater certainty as to whether any
 11 resulting patent is an AIA or pre-AIA patent.”

12 78 Fed. Reg. 11,040-41 (February 14, 2013) (discussing final rule codified at 37
 13 C.F.R. §1.78). (Emphasis added).

14 Thus, the USPTO has made clear that, in the examination of transition
 15 applications, the USPTO relies upon the applicant’s statement under 37 C.F.R.
 16 §1.78, or the absence thereof and, in the absence of such a statement from an
 17 applicant, the USPTO will examine the transition application under pre-AIA law.
 18 Accordingly, the USPTO will not independently determine a transition
 19 application’s entitlement to the benefit of the filing date of its claimed priority
 20 application.

21 **C. The Patent Applicant’s Duty of Disclosure to the USPTO in Relation** 22 **to Transition Applications.**

23 USPTO regulations place a duty of candor and good upon patent applicants
 24 in the filing prosecution of patent applications. “Each individual associated with
 25 the filing and prosecution of a patent application has a duty of candor and good
 26 faith in dealing with the Office, which includes a duty to disclose to the Office all
 27 information known to that individual to be material to patentability as defined in
 28 this section.” 37 C.F.R. §1.56(a). “... [N]o patent will be granted on an
 application in connection with which fraud on the Office was practiced or

1 attempted or the duty of disclosure was violated through bad faith or intentional
2 misconduct.” *Id.*

3 In publishing the final version of its regulations implementing the patent
4 examination procedures under the AIA, the USPTO stated:

5 “Sec. 1.56 also includes a general duty of candor and good
6 faith in dealing with the Office, which could be implicated if an
7 applicant is aware that a transition application contains a claim
8 to a claimed invention that has an effective filing date on or
9 after March 16, 2013, but nonetheless chooses not to provide
10 the statement when required under Sec. ... 1.78.”

11 78 Fed. Reg. 11,041 (February 14, 2013) (discussing final rule codified at 37
12 C.F.R. §1.78). (Emphasis added). Accordingly, the failure to submit a required
13 statement under 37 C.F.R. §1.78, where a patent applicant or its representative
14 was aware that a transition application included a claim to new subject matter,
15 standing alone, can give rise to a breach of the duty of disclosure to the USPTO
16 and, in turn, render any patent issuing as a result of such conduct unenforceable
17 due to inequitable conduct before the USPTO.

18 **D. The Pleading Standards for Inequitable Conduct.**

19 A motion to dismiss a counterclaim brought pursuant to Fed. R. Civ. P.
20 12(b)(6) is evaluated under the same standard to dismiss a plaintiff’s complaint.
21 In reviewing these motions, courts view all of the pleaded facts as true and in the
22 light most to the non-moving party. *Lee v. City of Los Angeles*, 250 F.3d 668,
23 679 (9th Cir. 2001). For allegations of fraud, “a party must state with
24 particularity the circumstances constituting [the] fraud”, although [m]alice,
25 intent, knowledge and other conditions of a person’s mind may be alleged
26 generally. Fed. R. Civ. P. 9(b).

1 The Federal Circuit set forth the test for pleading an inequitable conduct
 2 claim in *Exergen Corp. v. Wal-Mart Stores, Inc.*, 575 F.3d 1312, 1328-29 (Fed.
 3 Cir. 2009). The heightened pleading requirements do not require—as Seville
 4 implicit suggests in its motion—an accused infringer to definitively prove the
 5 merits of its inequitable conduct claim at the initial pleading stage. Rather, to
 6 satisfy the heightened pleading standard of Rule 9(b), “the pleading must identify
 7 the specific who, what, when, where, and how of the material misrepresentation
 8 or omission committed before the PTO.” *Id.* at 1328. Next, “although
 9 ‘knowledge’ and ‘intent’ may be averred generally, a pleading of inequitable
 10 conduct under Rule 9(b) must include sufficient allegations of underlying facts
 11 from which a court may reasonably infer that a specific individual (1) knew of
 12 the withheld material information or of the falsity of the material
 13 misrepresentation, and (2) withheld or misrepresented this information with a
 14 specific intent to deceive the PTO.” *Id.* at 1328. A counterclaim must allege
 15 “sufficient underlying facts from which a court may reasonably infer that a party
 16 acted with the requisite state of mind.” *Id.* at 1327. The facts pled in support of
 17 Count II easily meet this threshold requirement.

18 Argument

19 **A. Neatfreak has Adequately Pled its Counterclaim for Inequitable** 20 **Conduct**

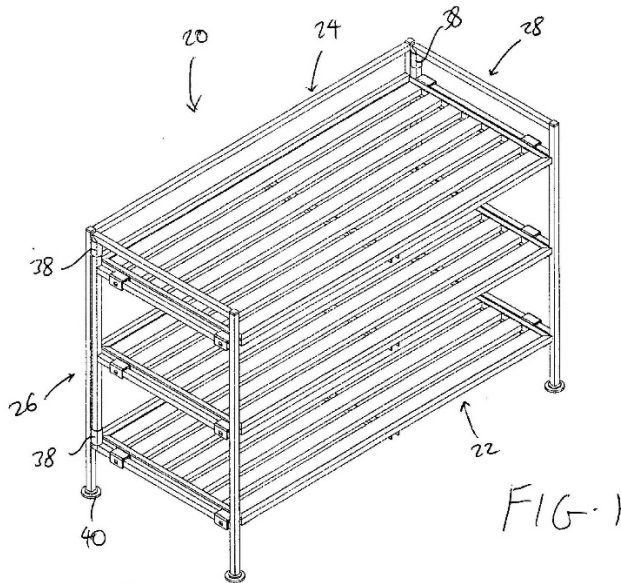
21 Count II of Neatfreak’s Counterclaims, for a declaratory judgment of
 22 unenforceability of the ‘357 Patent, meets all of the requirements for stating a
 23 claim for inequitable conduct under the Federal Circuit’s pleading standards a set
 24 forth in *Exergen*. As demonstrated, *infra*, Neatfreak’s Counterclaim plausibly
 25 alleges facts identifying the requisite “who, what, when, where, and how” of the
 26 material misrepresentation or omission committed before the USPTO in
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1 connection with the application resulting on the ‘357 Patent. Neatfreak’s
 2 Counterclaims likewise plausibly alleges facts from which the requisite scienter
 3 may be inferred.

4 **1. The Key Difference between the ‘357 Patent and its Priority**
 5 **Application.**

6 As alleged in Neatfreak’s Counterclaims, on May 26, 2010, Seville’s
 7 patent attorney filed U.S. Utility Application No. 12/800,986, entitled “Storage
 8 Rack” (the “**’986 Application**”), with the USPTO. This patent application was
 9 published by the USPTO on December 1, 2011 as Pub. No. 2011/0290750 A1
 10 (the “**’750 Publication**”). Counterclaims, ECF No. 44 at ¶ 14. On May July 24,
 11 2013, the same patent attorney for Seville filed the application resulting in the
 12 ‘357 Patent, claiming priority to the ‘986 Application. *Id.* at ¶ 32. The
 13 application for the ‘357 Patent is a transition application, because it was filed
 14 after March 16, 2013, and claims priority to a parent application filed before
 15 March 16, 2013. *Id.* at ¶ 38.

16 The ‘357 Patent claims three different embodiments of ornamental designs
 17 for storage racks: a first embodiment, in the form of the ornamental design of a 3-
 18 shelf, single-tier rack; a second embodiment, in the form of an ornamental design
 19 of a 9-shelf, single tier rack; and a third embodiment, in the form of an
 20 ornamental design of a 9-shelf, three-tier rack. *Id.* at ¶ 45. The first claimed
 21 embodiment of the ‘357 Patent, in the form of the ornamental design of a 3-shelf,
 22 single-tier rack, is derived from Figure 1 of the ‘986 Application, as shown
 23 below. *Id.* at ¶ 46.



**Fig. 1 of the '986 Application
and '750 Publication**

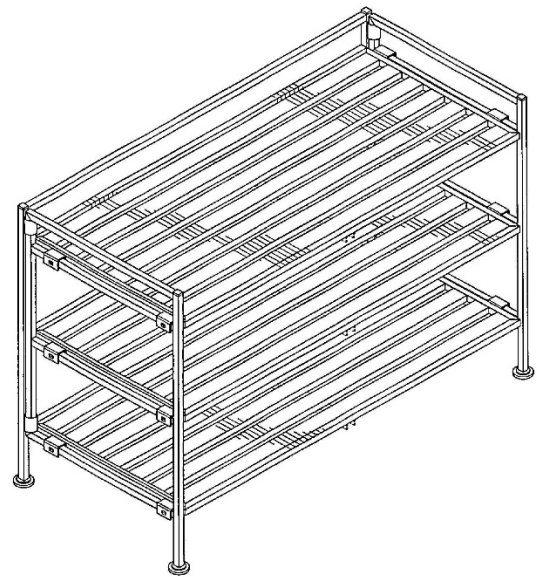
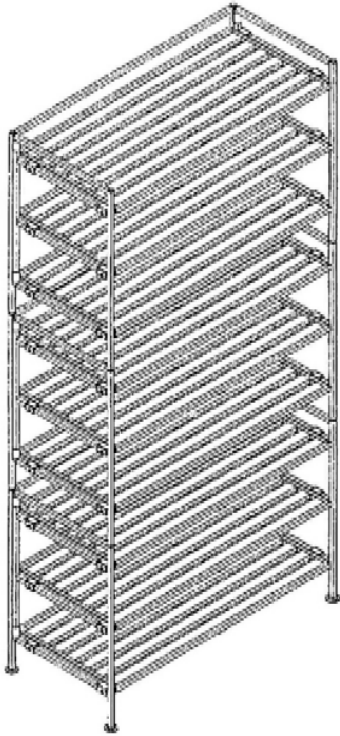


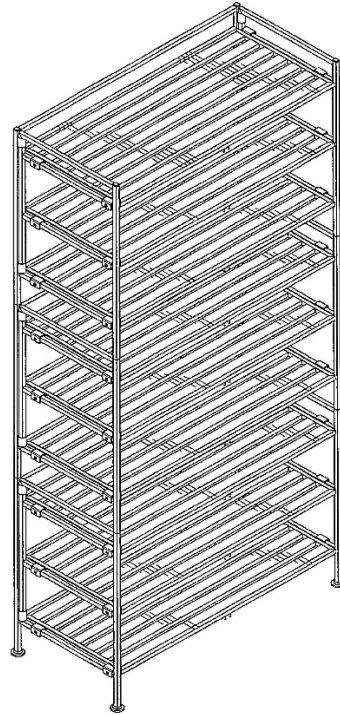
FIG. 1

**Fig. 1 of the
Issued '357 Patent**

The second claimed embodiment of the '357 Patent, in the form of an ornamental design of a 9-shelf, single tier rack, is derived from Figure 12 of the '986 Application, as shown below. *Id.* at ¶ 47.



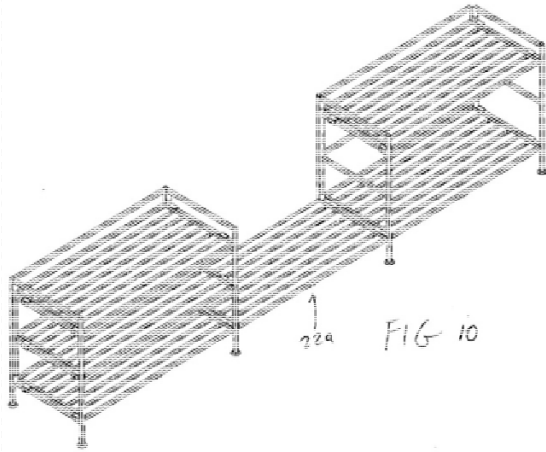
**Fig. 12 of the '986 Application
and the '750 Publication**



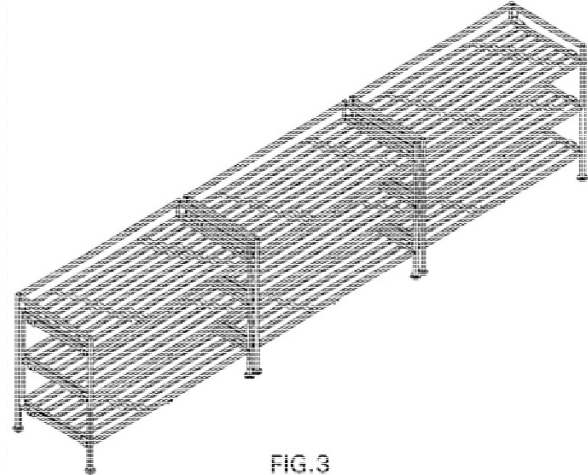
**Fig. 2 of the
Issued '357 Patent**

The third claimed embodiment of the '357 Patent, in the form of an ornamental design of a 9-shelf, three-tier rack, has no support in the '986 Application, and is thus newly claimed subject matter. *Id.* at ¶ 49. Specifically, as pled, a 3-tier, 6-shelf rack design from the '986 Application was deleted and, without notification to the USPTO, was replaced by 3-tier, 9-shelf rack design, newly created and added to the application for the '357 Patent, as shown below.

Id.



**Deleted 3-Tier, 6-Shelf Rack
from the Parent '986
Application**



**3-Tier, 9-Shelf Rack, Newly
Created and Added as Fig. 3
to the Application for the '357
Patent**

2. Neatfreak's Counterclaims Adequately Plead the "Who" and "When" of the Material Misrepresentations and Omissions before the USPTO.

Neatfreak's Counterclaims adequately plead the "who" and "when" requirements of *Exergen* to state a claim for inequitable conduct. Neatfreak's Counterclaims allege that the same patent attorney for Seville: (1) submitted the application for the '357 Patent on July 24, 2013 (*Id.* at ¶ 32); (2) submitted the application for the '986 Application to which the '357 Patent claims priority on May 26, 2010 (*Id.* at ¶ 14); (3) intentionally failed to submit the required statement, pursuant to 37 C.F.R. § 1.78, that the application for the '347 Patent claimed new matter not supported by its parent application, with the USPTO acknowledging in the Official Filing Receipt issued August 1, 2013 that no such statement was submitted (*Id.* at ¶ 42); and (4) repeatedly misrepresented to the

USPTO that the ‘357 Patent was a continuation³, rather than a continuation-in-part application⁴, in two separate writings on July 24, 2013, and again on June 6, 2014 (*Id.* at ¶¶ 39-40). Seville does not assert in its Motion to Dismiss that Neatfreak has failed to adequately plead the “who” or “when” of a claim for inequitable conduct.

3. Neatfreak’s Counterclaims Adequately Plead the “What” and “Where” of the Material Misrepresentations and Omissions before the USPTO.

Neatfreak’s Counterclaims likewise adequately plead the “what” and “where” requirements of *Exergen* to state a claim for inequitable conduct. To properly plead the “what and “where” of alleged material misrepresentations and omissions, a pleading must “identify which claims, and which limitations of those claims, the withheld references are relevant to, and where in those references the material information is found.” *See Exergen*, 575 F.3d at 1329. Design patents such as the ‘357 Patent are only permitted to have a single claim, directed to the article as shown in the drawings. 37 C.F.R. § 1.153(a). Thus, identifying a design patent and its claimed design fully identifies the both relevant claims and its claim limitations.

³ “A continuation application is an application for the invention(s) disclosed in a prior- filed copending nonprovisional application, international application designating the United States, or international design application designating the United States. The disclosure presented in the continuation must not include any subject matter which would constitute new matter if submitted as an amendment to the parent application.” Manual of Patent Examination and M.P.E.P. § 201.07 (Emphasis added).

⁴ “A continuation-in-part is an application filed during the lifetime of an earlier nonprovisional application, repeating some substantial portion or all of the earlier nonprovisional application and adding matter not disclosed in the said earlier nonprovisional application.” *Id.* at 201.08. (Emphasis added).

1 Neatfreak's Counterclaims allege that the application for the '357 Patent
2 contained and claimed new subject matter that was not disclosed in the parent
3 '986 Application to which it claims priority, published as the '750 Publication.
4 Counterclaims, ECF No. 44 at ¶ 44. Neatfreak's Counterclaims identify the new
5 subject matter as the 3-tier, 9-shelf rack, having been newly created and added as
6 Figure 3 to the application for the '357 Patent. *Id.* at ¶ 48. Neatfreak's
7 Counterclaims further allege that, as the result of Seville's patent attorney's
8 failure to submit the required statement under 37 CFR § 1.78, and his repeated
9 misrepresentation of the application for the '357 Patent as being a continuation,
10 rather than a continuation-in-part of the '986 Application, the application for the
11 '357 Patent was improperly examined under pre-AIA, rather than AIA law, and,
12 resultantly, both the '986 Application and the '750 Publication were not properly
13 considered as being prior art to the application for the '357 Patent. *Id.* at ¶¶ 39-
14 44. Accordingly, Neatfreak's Counterclaims adequately plead both the "what"
15 and "where" requirements of *Exergen*.
16

17 At bottom, Seville's Motion to Dismiss does not take issue as to whether
18 Neatfreak has adequately pled any of the who, what, when or where requirements
19 of *Exergen* to state a claim for inequitable conduct in connection with the '357
20 Patent. Rather, Seville's Motion to Dismiss only addresses whether the acts and
21 omissions of Seville's patent attorney were in fact misrepresentations, and
22 whether those misrepresentations were material – the "how" requirement of
23 *Exergen*; as well as whether Seville's patent attorney acted with the requisite
24 state of mind – the scienter requirement of *Exergen*. Both of these contentions of
25 Seville's Motion to Dismiss are addressed, *infra*.
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1 **4. Neatfreak’s Counterclaims Adequately Plead the “How” of the**
 2 **Material Misrepresentations and Omissions before the USPTO.**

3 Neatfreak’s Counterclaims likewise adequately plead the “how”
 4 requirement of *Exergen* to state a claim for inequitable conduct. To properly
 5 plead the “how” requirement, Neatfreak’s Counterclaims must identify why the
 6 acts and omissions of Seville’s patent attorney were material, and how an
 7 examiner would have used this material in assessing the patentability of the
 8 claims. *See Exergen*, 575 F.3d at 1329-30.

9 Neatfreak’s Counterclaims allege that, but-for the omission of Seville’s
 10 patent attorney in submitting a statement under Rule 1.78, and but-for the
 11 repeated misrepresentations of Seville’s patent attorney that the application for
 12 the ‘357 Patent was a continuation, rather than a continuation in part application,
 13 the examiner would have considered both the priority ‘986 Application and its
 14 publication as the ‘750 Publication to be prior art to the application for the ‘357
 15 Patent. Counterclaims, ECF No. 44 at §§ 41, 43. “A claim for priority is
 16 inherently material to patentability because a priority date may determine
 17 validity, whether an issue arises in prosecution or later in court challenges to
 18 validity.” *Nilssen v. Osram Sylvania, Inc.*, 504 F.3d 1223, 1233 (Fed. Cir. 2007).
 19 “[A]n active misrepresentation [concerning a claim for priority] made during
 20 prosecution in order to avoid prior art is no doubt “highly material”. *Id.* (Internal
 21 quotations omitted).
 22

23 Neatfreak’s Counterclaims further identify precisely why the ‘986
 24 Application and the ‘750 Publication are so material. Specifically, Neatfreak’s
 25 Counterclaims both allege and illustrate that Figures 1 and 12 of the ‘986
 26 Application and the ‘750 Publication are substantially the same in appearance to
 27 Figures 1 and 2 of the claimed design of the ‘357 Patent with, at most, a *de*
 28

1 *minimis* difference, in the form of the ‘357 Patent’s addition of surface shading,
 2 as is required in design patent drawings per USPTO rules of practice. *Id.* at §§
 3 46, 47, 49.

4 As a result of this near identity of the disclosures of the prior art ‘986
 5 Application and the ‘750 Publication to two of the claimed embodiments of the
 6 ‘357 Patent, had the examiner properly applied them as prior art, the application
 7 for the ‘357 Patent would have been finally rejected, rather than granted, as being
 8 anticipated by, or unpatentable over, these prior art references. *Id.* at §§ 54-55.

9 Neatfreak’s Counterclaims further explain why the ‘986 Application the
 10 ‘750 Publication are not cumulative to the prior art made of record and
 11 considered during the examination of the application for the ‘357 Patent. *Id.* at §
 12 53. Accordingly, Neatfreak’s Counterclaims include allegations meeting the
 13 “how” requirement of *Exergen*.
 14

15 **5. Seville’s Arguments Concerning the “How” Requirement of**
 16 ***Exergen* are all Unavailing.**

17 Seville makes three principal arguments in asserting that Neatfreak’s
 18 Counterclaim fails to meet the “how” requirement of *Exergen*: (1) that
 19 Neatfreak’s Counterclaims only “speculate” that the Examiner did not consider
 20 the ‘750 Publication because of Seville’s patent attorney’s omissions and
 21 misrepresentations, and that the examiner would have rejected the application for
 22 the ‘357 Patent if he appreciated that the ‘750 Publication was prior art; (2) that
 23 Seville’s patent attorney properly designated the application for the ‘357 Patent
 24 as a continuation, rather than a continuation-in-part application; and (3) even if
 25 Seville’s patent attorney did misdesignate the application for the ‘357 Patent as
 26 being a continuation application, the misdesignation was immaterial. Each of
 27 these arguments is entirely unavailing.
 28

1 First, Seville argues that Neatfreak's Counterclaims only speculate that the
2 examiner did not consider the '750 Publication because of its misidentification as
3 a continuation application (Motion to Dismiss, ECF No. 53 at p. 3), and that it is
4 speculation that the examiner would have rejected the application for the '357
5 Patent if the '750 Publication (*Id.* at pp. 8-11). Seville's first assertion of
6 purported speculation, as to why the Examiner did not consider the '750
7 Publication, conveniently ignores the allegations of Neatfreak's Counterclaims
8 regarding the failure of Seville's patent attorney to make the required statement
9 for a transition application under 37 C.F.R. § 1.78, and that absent such a
10 statement from an applicant, USPTO policy dictates that it will examine the
11 application under pre-AIA law, as USPTO relies upon the applicant's statement,
12 or lack thereof, as to whether an application's claims are supported by the parent
13 application to which priority is claimed. *See* Counterclaims, ECF No. 44 at §§
14 37, 42. Indeed, Seville's Motion to Dismiss makes no mention whatsoever of the
15 Counterclaims' allegations that the application for the '346 Patent was a
16 transition application, that Seville's patent attorney's failure to submit any
17 statement under 37 C.F.R. § 1.78, and that USPTO's express relies upon the
18 absence of such a statement.

20 Seville's other assertion, that it is only "speculation" that the examiner
21 would have rejected the application for the '357 Patent if he appreciated that the
22 '750 Publication was available as prior art, is demonstrably false. As Neatfreak's
23 Counterclaim makes clear, Figures 1 and 12 of the '986 Application and the '750
24 Publication are substantially the same in appearance to Figures 1 and 2 of the
25 claimed design of the '357 Patent with, at most, a *de minimis* difference, in the
26 form of the '357 Patent's addition of surface shading, as is required in design
27 patent drawings per USPTO rules of practice. Counterclaims, ECF No. 44 at §§
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1 46, 47, 49. Thus, the ‘750 Publication fully discloses two claimed embodiments
2 of the ‘356 Patent. It necessarily follows that, had the application resulting in the
3 ‘357 Patent been properly examined under the AIA, the application would have
4 been finally rejected as being either anticipated by (under 35 U.S.C. § 102(a)) or
5 otherwise unpatentable over (under 35 U.S.C. § 103) the ‘750 Publication. *Id.* at
6 § 54.

7
8 Next, Seville argues that its patent attorney properly represented to the
9 USPTO that the application for the ‘357 Patent was a continuation, rather than a
10 continuation-in-part application, because no new subject matter was purportedly
11 added to the application for the ‘357 Patent. Motion to Dismiss, ECF No. 53 at
12 pp. 8-12. Seville asserts that Fig. 3 of the ‘357 Patent is “nothing more than three
13 copies of the storage rack of Figure 1, placed side by side”. *Id.* at p. 10.

14 “To be entitled to a parent’s effective filing date, a continuation
15 [application] must comply with the written description requirement of 35 U.S.C.
16 § 112, ¶ 1 ... The test for sufficiency of the written description, which is the same
17 for either a design or a utility patent, has been expressed as whether the
18 disclosure of the application relied upon reasonably conveys to those skilled in
19 the art that the inventor had possession of the claimed subject matter as of the
20 filing date. In the context of design patents, the drawings provide the written
21 description of the invention. Thus, when an issue of priority arises under § 120 in
22 the context of design patent prosecution, one looks to the drawings of the earlier
23 application for disclosure of the subject matter claimed in the later application.”
24 *In re Owens*, 710 F.3d 1362, 1366 (Fed. Cir. 2013) (Internal quotation marks and
25 citations omitted) (Emphasis added).

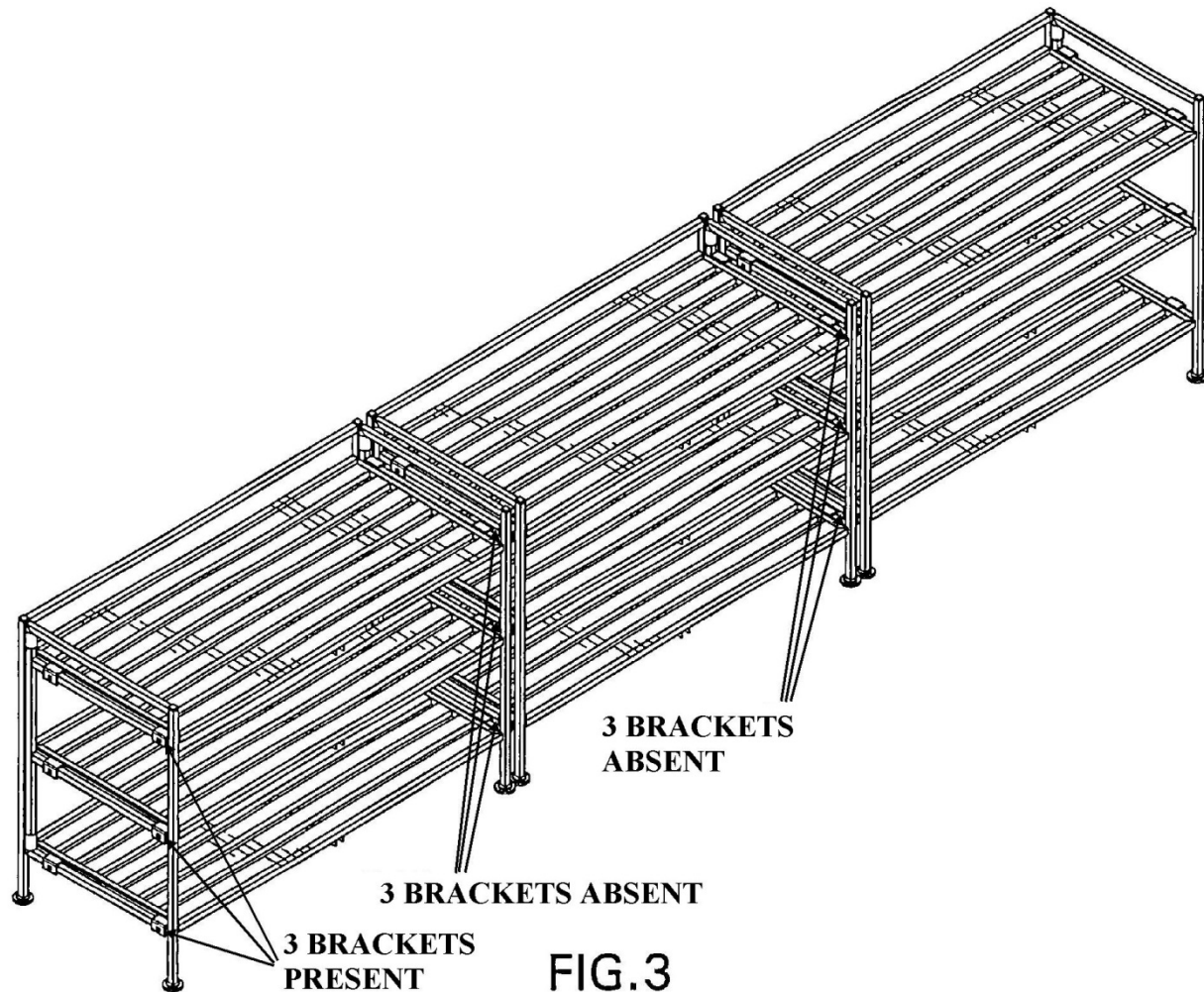
26 Neatfreak’s Counterclaims demonstrate that, in submitting the application
27 for the ‘357 Patent, Seville’s patent attorney deleted a 3-tier, 6-shelf rack from
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1 the disclosure of the parent application, and substituted instead the newly created
2 3-tier, 9-shelf storage rack of Figure 3. Counterclaims, ECF No. 44 at ¶ 48.
3 Seville's attempt to portray Figure 3 as being merely three instances of the
4 storage rack of Fig. 1 of the '357 Patent is plainly wrong.

5 First, Seville has mistakenly looked to other drawings of the '357 Patent
6 itself, rather than to the drawing of the priority patent application, for support for
7 the 9-tier rack of Figure 3. *See In re Owens*. In essence, Seville argues that
8 Figure 3 of the '357 Patent is merely another configuration of the design shown
9 in its parent application. However, "[a] change in the configuration of the
10 claimed design is considered a departure from the original disclosure and
11 introduces prohibited new matter." M.P.E.P. § 1505.04. (Emphasis added).

12 Second, the description of the drawings of the '357 Patent expressly
13 identifies its Figure 3 as being a different, "third embodiment" of the invention.
14 Counterclaims, ECF No. 44 at ¶ 45. Surely, merely placing multiple instances of
15 an embodiment of an invention side by side does not create a "new embodiment"
16 of an invention, as the '357 Patent explicitly labels its Figure 3.

17 Third, a visual comparison of Figures 1 and 3 of the '357 Patent
18 demonstrates that Figure 3 is not, in fact, three instances of Figure 1, but is rather
19 a different, 9-tier rack that is nowhere to be found in the priority application. The
20 differences between the embodiments of Figures 1 and 3 of the '357 Patent are
21 illustrated below:
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As demonstrated above, the center and right-most sections of the 3-tier storage rack of Figure 3 both differ in construction from the left-most section. Figure 3 of the '357 Patent in fact presents a new, interconnected, 9-tier, unitary storage rack that is nowhere to be found in the disclosure of its parent application.

Critically, further undercutting Seville's position, the question of whether new matter has been improperly added to a patent's specification is a question of fact. *Vas-Cath Inc. v. Mahurkar*, 935 F.2d 1555, 1563 (Fed. Cir. 1991); *Brooktree Corp. v. Advanced Micro Devices, Inc.*, 977 F.2d 1555, 1574-75 (Fed. Cir. 1992). Seville's proffering of a different interpretation of the patent's

1 drawings than that asserted by Neatfreak in Count II does nothing to eliminate
2 this question of fact and does not support the dismissal of Neatfreak's
3 counterclaim.

4 Finally, Seville argues that any misdesignation of its patent application as
5 being a continuation, rather than a continuation-in-part application is immaterial,
6 as the Examiner could have made his own decision in that regard. Seville cites
7 three decisions for the broad proposition that "statements by a patent applicant or
8 his attorney characterizing or describing information that is already before the
9 PTO do not constitute inequitable conduct. Motion to Dismiss, ECF No. 53 at p.
10 11. In so doing, Seville cites inapplicable case law, and once again ignores the
11 USPTO's statements concerning transition applications, particularly the
12 USPTO's stated reliance upon the applicant's representations regarding whether
13 a transition application contains new matter.
14

15 Seville relies upon *Innogenetics, N.V. v. Abbott Labs.*, 512 F.3d 1363, 1379
16 (Fed. Cir. 2008); *Young v. Lumenis, Inc.*, 492 F.3d 1336, 1348-49 (Fed. Cir.
17 2007); and *Akzo N.V. v. U.S. International Trade Com.*, 808 F.2d 1471, 1482
18 (Fed. Cir. 1986). Motion to Dismiss, ECF No. 53 at p. 11. Each of these cases is
19 wholly inapplicable to the acts and omissions at hand. Notably, all of the cases
20 cited by Seville are directed to assertions that mere attorney argument,
21 advocating a particular interpretation of prior art submitted to the USPTO,
22 constitute inequitable conduct. The conduct alleged in Neatfreak's
23 Counterclaims does not involve any attorney argument advocating interpretations
24 of prior art references.

25 Moreover, none of these cases cited by Seville involve transition
26 applications, or the failure to make a required statement under 37 C.F.R. § 1.78.
27 Once again, Seville completely ignores the USPTO's stated policy behind this
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1 required statement of the applicant – namely, that, in transition applications,
 2 patent examiners cannot be expected to independently determine the effective
 3 date of each claimed invention. If examiners were required to independently
 4 determine the effective filing date of each claim ever presented in an application,
 5 applicants would need to pay higher filing fees to recover the significantly higher
 6 examination costs. See 77 Fed. Reg. 43,745; 78 Fed. Reg. 11,040-41, both
 7 discussed, *supra*. Seville’s representation on page 12 of its Motion to Dismiss
 8 that “[t]he Examiner plainly had the capacity to review Figure 3 of the D357
 9 Patent and determine whether it introduced any new matter” is clearly contrary to
 10 USPTO practice and procedure for transition patent applications.

11 **6. Neatfreak’s Counterclaims Adequately Plead the Scienter**
 12 **Requirement for a Claim for Inequitable Conduct.**

13
 14 Neatfreak’s Counterclaims meet the scienter requirement to state a claim for
 15 inequitable conduct relative to the ‘357 Patent, by including sufficient allegations
 16 from which the Court may reasonably infer that a specific individual (1) knew of
 17 the withheld material information or of the falsity of the material
 18 misrepresentation, and (2) withheld or misrepresented this information with a
 19 specific intent to deceive the USPTO. See *Exergen*, 575 F.3d at 1328. Sufficient
 20 facts are alleged from which the Court may reasonably infer that a party acted
 21 with the requisite state of mind.” See *Id.* at 1327.

22 Regarding knowledge of the withheld information and its materiality,
 23 Neatfreak’s Counterclaims plausibly allege that the same patent attorney for
 24 Seville prepared and submitted both the priority ‘986 Application and the
 25 application for the ‘357 Patent. Counterclaims, ECF NO. 44 at ¶¶ 14, 32, 55.
 26 Neatfreak’s Counterclaims further allege that the same patent attorney deleted a
 27 figure from the priority ‘986 Application, and substituted in a figure that was
 28

1 newly created for the ‘357 Patent. *Id.* at ¶ 48. Neatfreak’s Counterclaims thus
2 allege facts from which the Court may reasonably infer that Seville’s patent
3 attorney knew that the application for the ‘357 Patent contained new subject
4 matter that is not supported in its parent application.

5 Regarding the specific intent to deceive the USPTO, Neatfreak’s
6 counterclaims plausibly allege that Seville’s patent attorney not only personally
7 made the changes to the claimed subject matter of the ‘357 Patent application
8 (*Id.*), but also that the same patent attorney for Seville: (1) failed to submit the
9 requisite statement under 37 C.F.R. 1.78, thus ensuring that the application for
10 the ‘357 Patent would be examined under pre-AIA, rather than AIA law (*Id.* at ¶
11 42); and (2) engaged in a repeated pattern of misrepresentation to the USPTO, by
12 misidentifying the application as being a continuation, rather than a continuation-
13 in-part application on multiple occasions, including in the specification of the
14 application for the ‘357 Application as originally filed (*Id.* at ¶ 39), in the
15 associated Application Data Sheet (*Id.*), and in a subsequent amendment to the
16 application (*Id.* at ¶ 40).

17
18 Particularly at the initial pleading stage, where courts view all of the
19 pleaded facts as true and in the light most to the non-moving party, any one of
20 these allegations are sufficient to support a reasonable inference that Seville’s
21 attorney acted with the requisite state of mind. Taken together, there can be no
22 doubt that the scienter requirement of *Exergen* has been met by the allegations of
23 Seville’s Counterclaims.

24 In addressing the scienter pleading requirement, Seville argues that the
25 facts alleged in Seville’s counterclaims “point at least equally to the conclusion
26 of good faith”, and that “none of the factual allegations in the counterclaim
27 suggest that bad faith is the single most reasonable inference”. Motion to
28

Dismiss, ECF No. 53 at p. 12. In so doing, Seville has improperly conflated the holding in *Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276 (Fed. Cir. 2011) (en banc) for what must ultimately be proven at trial, with the holding in *Exergen*, for what must be alleged at the pleading stage. Here, the issue presently before the Court is not whether Neatfreak will ultimately prevail on the merits of its Counterclaims, but rather whether Neatfreak has pled facts sufficient to entitle it to later offer evidence in support of its allegation of inequitable conduct. Neatfreak has clearly alleged sufficient facts to nudge its claim for inequitable conduct “across the line from conceivable to plausible”. *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, 570 (2007).

Therasense did not, as Seville implicitly suggests, heighten the pleading standards set forth in *Exergen*. The Federal Circuit has reiterated that, even after *Therasense*, all that is required at the pleading stage is a plausible inference of deceptive intent:

“A charge of inequitable conduct based on a failure to disclose will survive a motion to dismiss only if the plaintiff’s complaint recites facts from which the court may reasonably infer that a specific individual both knew of invalidating information that was withheld from the PTO and withheld that information with a specific intent to deceive the PTO.”

Delano Farms Co. v. California Table Grape Comm’n, 655 F.3d 1337, 1350 (Fed. Cir. 2011) (citing *Exergen*, 575 F.3d at 1318, 1330). (Emphasis added). In arguing to the contrary in its Motion to Dismiss, Seville has improperly collapsed the distinction between pleading determinations and determinations on the merits.

Accordingly, Neatfreak’s Counterclaims properly plead all of the elements for its claim seeking a declaratory judgment that the ‘357 Patent is unenforceable.

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2
3 **B. Count II of Neatfreak's Counterclaim Should not be Dismissed With**
4 **Prejudice.**

5 Finally, in its proposed order accompanying its Motion to Dismiss, Seville,
6 for the first time, asserts that Count II of Neatfreak's Counterclaims should be
7 dismissed with prejudice, and that Neatfreak's associated affirmative defense
8 should be stricken without leave to amend. Proposed Order, ECF No. 52-1. As
9 demonstrated above, Neatfreak's Counterclaims meet all of the requirements to
10 state a claim for inequitable conduct relative to the '357 Patent. If, for some
11 reason, the Court remains unpersuaded, Neatfreak submits that any dismissal of
12 its Count II should be without prejudice, and Neatfreak's future ability to amend
13 the associated affirmative defense should not be foreclosed at this juncture, as
14 discovery in this action may well yield additional facts supporting this
15 counterclaim and its associated affirmative defense.
16

17 **Conclusion**

18 For all of the foregoing reasons, Seville's Motion to Dismiss Count II of
19 Neatfreak's Counterclaims, and to strike the associated affirmative defense,
20 should be denied.
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1 Respectfully submitted,

2 Dated: March 7, 2016

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